

April 28, 1998

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, DC 20436

MEMORANDUM TO THE COMMITTEE ON FINANCE OF THE UNITED STATES
SENATE ON PROPOSED TARIFF LEGISLATION¹

Bill no., sponsor, and sponsor's state: S. 1474 (105th Congress), Senator D'Amato (NY).²

Companion bill: None.³

Title as introduced: To suspend temporarily the duty on certain high tenacity single yarn of viscose rayon.

Summary of bill:⁴

The bill would amend the Harmonized Tariff Schedule of the United States (HTS) to suspend the general rate of duty of 10 percent ad valorem on high tenacity viscose rayon filament yarn through December 31, 1999.⁵ The yarn is classified in HTS subheading 5403.10.30.

Effective date: The 15th day after enactment.

Retroactive effect: None.

¹ Industry analyst assigned was Jackie W. Jones (205-3466); attorney assigned was Jan Summers (205-2605).

² In addition to S. 1474, Senate bills to provide duty suspensions on rayon filament yarns include S. 1475, "To suspend temporarily the duty on certain twisted yarn of viscose rayon;" and S. 1478 and S. 1479, both of which are entitled, "To suspend temporarily the duty on certain other single viscose rayon yarn." All three bills were introduced by Senator D'Amato (NY) on Nov. 8, 1997.

³ Representative Jenkins (TN) introduced a similar bill, H.R. 1954, "To suspend temporarily the duty on high tenacity single yarns of viscose rayon." H.R. 2622--section 241 would provide a 3-year duty suspension for single rayon filament yarn with a twist exceeding 120 turns per meter (HTS subheading 5403.32.00) and used in fabric production for apparel and home furnishings. Representative King (NY) introduced a similar duty suspension bill, H.R. 1888, "To suspend temporarily the duty on certain twisted yarn of viscose rayon." One other bill on rayon filament yarn, H.R. 2148, "To suspend temporarily the duty on certain other single viscose rayon yarn"--was introduced by Representative Spence (SC) and on behalf of Representative Sisisky (VA).

⁴ See appendix A for definitions of tariff and trade agreement terms.

⁵ Telephone conversation by Commission staff with the proponents of the bill indicate that a two-year duty suspension is desired.

Statement of purpose:

The sponsor made no statement regarding the bill in the *Congressional Record*, and his staff did not supply USITC staff with any information. However, the attorney for the principal proponent stated that a suspension of the 10-percent duty on high tenacity rayon filament yarn would lower the cost of the yarn to U.S. consumers that use the yarn in the manufacture of automotive products such as tires, hoses, and belts. Therefore, the duty suspension for the yarn, which is no longer produced in the United States, would help these companies be more competitive in the U.S. market and in the world market for their products.⁶

Product description and uses:

Single high tenacity
filament yarn of
viscose rayon:

The bill covers high tenacity single yarn of viscose rayon filament fibers, classifiable in HTS subheading 5403.10.30. Viscose rayon is an artificial fiber produced from cellulosic materials (generally wood pulp). The filament fiber is formed by extrusion of the chemical solution through tiny holes or spinnerettes. The rayon yarn may contain one (monofilament) or several (multifilament) filaments, which can be untwisted or held together with twist. As “tenacity” refers to the breaking strength of the yarns, these high tenacity yarns are the strongest of the rayon filament yarns and are usually of a higher denier or thickness than the rayon yarns used in the production of fabrics for apparel and home furnishings. The high tenacity yarns are used primarily in the production of high performance tires because of their relatively high heat and abrasion resistance. The yarns are also used in the production of automotive hoses, such as radiator and brake hoses, and of belting, such as v-belts for fan belts.

Tariff treatment:⁷

<u>Product</u>	<u>HTS subheading</u>	<u>Col. 1-general rate of duty</u>
Artificial filament yarn (other than sewing thread), not put up for retail sale: High tenacity single yarn of viscose rayon.....	5403.10.30	10%

This general rate of duty is not scheduled to be reduced further and represents a “bound” rate of duty under Schedule XX, the U.S. schedule of concessions accorded under the General Agreement on Tariffs and Trade.

⁶ Mr. Russell L. Smith, attorney for North American Corp., Elizabethton, TN, telephone conversation with Commission staff, Mar. 19, 1998.

⁷ See appendix B for column 1-special and column 2 duty rates.

Structure of domestic industry (including competing products):

Single high tenacity
filament yarn of
viscose rayon:

This yarn has not been produced in the United States since early 1997, when the one U.S. producer, North American Corp., Elizabethton, TN, stopped making most rayon filament yarn, including the high tenacity filament yarn.

Possible competing
product--high tenacity
polyester filament yarn:

The Hoechst Corp. claims that high tenacity polyester filament yarn is highly substitutable for the high tenacity rayon filament yarn covered by the bill.⁸ The Hoechst Corp.'s subsidiary, Trevira, manufactures high tenacity polyester filament yarn in its Salisbury, NC plant. The other U.S. producers of high tenacity polyester filament yarn are Allied Signal, Richmond, VA and Akzo, Scottsboro, AL.

High tenacity polyester filament yarn used in automotive applications has a considerable cost advantage over high tenacity rayon filament yarn--the reported cost is \$2 per pound for polyester compared with \$4 per pound for rayon.⁹ Because of this cost differential and because the high tenacity polyester filament yarn is a viable alternative for high tenacity rayon yarn, industry sources report that the high tenacity polyester yarn largely took over the automotive tire, hose, and belt market. However, high tenacity rayon filament yarn is preferred over the polyester yarn in the production of tire cord for high performance tires.¹⁰ Reportedly, automobile tires made with tire cord of the high tenacity rayon yarn last longer when used on automobiles driven at high speeds than tires made with tire cord of high tenacity polyester yarn. The use of high tenacity rayon filament yarn in tire cord in Europe is much more prevalent than in the United States because automobiles tend to be driven at much higher speeds in Europe than in the United States. In addition, high tenacity rayon filament fiber is a preferred fiber in the production of certain automotive radiator and brake hoses because the rayon yarn is resistant to certain chemicals in antifreeze and brake fluid.

In its submissions, the Hoechst Corp. explains that because high tenacity rayon and polyester filament yarns are substitutable in many cases and the rayon yarn is preferred in some cases, a suspension of the duty as proposed by the bill would lower the price differential between the two fibers, making the rayon filament yarn more price competitive. As stated by the Hoechst Corp., lower-cost rayon filament yarn from such supplying countries as India, China and many of the former Eastern

⁸ See appendix C for the Hoechst Corp.'s letter to Mr. Mark A. Patterson, Minority Staff Director, Committee on Finance, U.S. Senate, Mar. 10, 1998; and the Hoechst Corp.'s "Statement in Opposition to Pending Legislation to Suspend or Reduce Import Duties on Certain Rayon Filament Yarn," Jan. 26, 1998.

⁹ Information obtained from telephone conversation with Mr. Charles K. Green, President, North American Corp. and Commission staff, Mar. 16, 1998.

¹⁰ Ibid.

European countries would become competitive with the U.S.-made high tenacity polyester filament yarn in the industrial market.¹¹

Private-sector views:

Single high tenacity filament yarn of viscose rayon:

The Commission contacted the North American Corp., Elizabethton, TN, which was the last domestic producer of most types of rayon filament yarn.¹² The company ceased production in early 1997. The North American Corp. supports the bill, and its written comments are set out in appendix C.

Possible competing product--high tenacity polyester filament yarn:

The Commission has been in contact with the Hoechst Corp., one of the major producers of high tenacity polyester filament yarn.¹³ The written comments of the Hoechst Corp. and its subsidiary, Trevira, are set out in appendix C.

Note: Although many of the attachments in appendix C do not specifically refer to this bill, the authors of the statements have indicated to Commission staff that their positions apply to all of the current legislation concerning rayon filament yarn.

U.S. consumption:

Single high tenacity filament yarn of viscose rayon:

	<u>1995</u>	<u>1996</u>	<u>1997</u>
U.S. production.....	¹	¹	¹
U.S. imports.....	3.2	2.6	5.0
U.S. exports.....	0.4	0.6	0.4
Apparent U.S. consumption.....	¹	¹	¹

¹ Not available, as production data for high tenacity rayon filament yarn are not separately reported. U.S. production of all types of rayon filament yarn, including the subject yarn, totaled \$30.7 million in 1996 and is believed to have dropped to a minimal amount in 1997, when the last U.S. producer ceased production of all rayon filament yarn.

¹¹ See appendix C for the Hoechst Corp.'s letter to the Committee on Finance, Mar. 10, 1998, and their formal statement in opposition to the pending legislation, Jan. 26, 1998, for more on the threat of lower cost imports of rayon filament yarn on the U.S. high tenacity polyester filament yarn industry.

¹² Mr. C. K. Green, President, North American Corp., telephone conversation with Commission staff, Feb. 11, 1998.

¹³ Mr. W. Anthony Shaw, Government Relations Department, Hoechst Corp., Washington, DC, telephone conversation with Commission staff, Jan. 23, 1998.

Principal import sources: Germany, Mexico, and Austria.
Principal export markets: Taiwan, Canada, and Mexico.

Possible competing product--high tenacity polyester filament yarn:¹

	<u>1995</u>	<u>1996</u>	<u>1997</u>
	------(Million dollars)-----		
U.S. production.....	416.5	436.8	441.9
U.S. imports.....	55.2	48.6	58.0
U.S. exports.....	44.6	41.7	55.6
Apparent U.S. consumption.....	427.1	443.7	444.3

Principal import sources: Germany, Mexico, and Korea.

Principal export markets: Canada, Belgium, the Netherlands, and Mexico.

¹Data were estimated by Commission staff.

Effect on customs revenue:¹⁴

Future annual effect:

Based on annual (1997) dutiable imports of the subject rayon filament yarn, valued at \$5.0 million, and accounting for imports from Mexico on which a lower 5-percent duty rate is assessed, and the suspension of the 1998 rate of duty of 10 percent ad valorem on remaining imports, the bill would result in an estimated annual customs revenue loss of \$420,300. The estimated revenue loss for the 2-year period of the duty suspension totals \$840,600.

(In thousands of dollars)		
Annual value of dutiable U.S. imports	5,041	
- annual value of imports from Mexico		<u>1,677</u>
Annual value of dutiable imports affected		3,364
Annual value of dutiable U.S. imports	3,364	
x column 1-general rate of duty	<u>0.10</u>	
Current annual duty collected		336.4
Annual value of imports from Mexico	1,677	
x NAFTA rate of		<u>0.05</u>
Current annual duty collected on imports from Mexico	83.9	
Current annual duty collected on imports from Mexico	83.9	
+ current annual duty collected on remaining imports		<u>336.4</u>
Total annual duty collected		420.3
Total annual duty collected		420.3
x number of years of duty suspension		<u>x 2</u>
Total revenue loss for 2-year period		840.6

¹⁴ The revenue loss/gain estimation presented in this section does not account for the effect that reduction of duty rates resulting from the proposed legislation might have on the volume of sales and prices of goods covered. Nor does the estimate attempt to predict the level of future imports given that domestic production has stopped.

Technical comments:

The proponents of the bill indicate in written submissions that the duty reduction is intended to be in effect for two years. As drafted, S. 1474 would make the duty reduction effective as of the 15th day after the date of enactment but would terminate it, by operation of the proposed tariff provision, at the close of December 31, 1999. Thus, the duty reduction would not be in effect for two full years. In order to give two full years' benefit of the duty reduction, the effective period of the new tariff provision would need to be amended so that it would expire on "9/30/00" or "12/31/00" or any other specific date (but not general language that would have it end on a date that is two years after enactment, as this would cause confusion and administrative problems).

APPENDIX A

TARIFF AND TRADE AGREEMENT TERMS

In the **Harmonized Tariff Schedule of the United States** (HTS), chapters 1 through 97 cover all goods in trade and incorporate in the tariff nomenclature the internationally adopted Harmonized Commodity Description and Coding System through the 6-digit level of product description. Subordinate 8-digit product subdivisions, either enacted by Congress or proclaimed by the President, allow more narrowly applicable duty rates; 10-digit administrative statistical reporting numbers provide data of national interest. Chapters 98 and 99 contain special U.S. classifications and temporary rate provisions, respectively. The HTS replaced the **Tariff Schedules of the United States** (TSUS) effective January 1, 1989.

Duty rates in the **general** subcolumn of HTS column 1 are most-favored-nation (MFN) rates, many of which have been eliminated or are being reduced as concessions resulting from the Uruguay Round of Multilateral Trade Negotiations. Column 1-general duty rates apply to all countries except those enumerated in HTS general note 3(b) (Afghanistan, Cuba, Laos, North Korea, and Vietnam), which are subject to the statutory rates set forth in **column 2**. Specified goods from designated MFN-eligible countries may be eligible for reduced rates of duty or for duty-free entry under one or more preferential tariff programs. Such tariff treatment is set forth in the **special** subcolumn of HTS rate of duty column 1 or in the general notes. If eligibility for special tariff rates is not claimed or established, goods are dutiable at column 1-general rates. The HTS does not enumerate those countries as to which a total or partial embargo has been declared.

The **Generalized System of Preferences** (GSP) affords nonreciprocal tariff preferences to developing countries to aid their economic development and to diversify and expand their production and exports. The U.S. GSP, enacted in title V of the Trade Act of 1974 for 10 years and extended several times thereafter, applies to merchandise imported on or after January 1, 1976 and before the close of June 30, 1998. Indicated by the symbol "A", "A*", or "A+" in the special subcolumn, the GSP provides duty-free entry to eligible articles the product of and imported directly from designated beneficiary developing countries, as set forth in general note 4 to the HTS.

The **Caribbean Basin Economic Recovery Act** (CBERA) affords nonreciprocal tariff preferences to developing countries in the Caribbean Basin area to aid their economic development and to diversify and expand their production and exports. The CBERA, enacted in title II of Public Law 98-67, implemented by Presidential Proclamation 5133 of November 30, 1983, and amended by the Customs and Trade Act of 1990, applies to merchandise entered, or withdrawn from warehouse for consumption, on or after January 1, 1984. Indicated by the symbol "E" or "E*" in the special subcolumn, the CBERA provides duty-free entry to eligible articles, and reduced-duty treatment to certain other articles, which are the product of and imported directly from designated countries, as set forth in general note 7 to the HTS.

Free rates of duty in the special subcolumn followed by the symbol "IL" are applicable to products of Israel under the **United States-Israel Free Trade Area Implementation Act** of 1985 (IFTA), as provided in general note 8 to the HTS.

Preferential nonreciprocal duty-free or reduced-duty treatment in the special subcolumn followed by the symbol "J" or "J*" in parentheses is afforded to eligible articles the product of designated beneficiary countries under the **Andean Trade Preference Act** (ATPA), enacted as title II of Public Law 102-182 and implemented by Presidential Proclamation 6455 of July 2, 1992 (effective July 22, 1992), as set forth in general note 11 to the HTS.

Preferential or free rates of duty in the special subcolumn followed by the symbol "CA" are applicable to eligible goods of Canada, and rates followed by the symbol "MX" are applicable to eligible goods of Mexico, under the **North American Free Trade Agreement**, as provided in general note 12 to the HTS and implemented effective January 1, 1994 by Presidential Proclamation 6641 of December 15, 1993. Goods must originate in the NAFTA region under rules set forth in general note 12(t) and meet other requirements of the note and applicable regulations.

Other special tariff treatment applies to particular **products of insular possessions** (general note 3(a)(iv)), **products of the West Bank and Gaza Strip** (general note 3(a)(v)), goods covered by the **Automotive Products Trade Act** (APTA) (general note 5) and the **Agreement on Trade in Civil Aircraft** (ATCA) (general note 6), **articles imported from freely associated states** (general note 10), **pharmaceutical products** (general note 13), and **intermediate chemicals for dyes** (general note 14).

The **General Agreement on Tariffs and Trade 1994** (GATT 1994), pursuant to the Agreement Establishing the World Trade Organization, is based upon the earlier GATT 1947 (61 Stat. (pt. 5) A58; 8 UST (pt. 2) 1786) as the primary multilateral system of disciplines and principles governing international trade. Signatories' obligations under both the 1994 and 1947 agreements focus upon most-favored-nation treatment, the maintenance of scheduled concession rates of duty, and national treatment for imported products; the GATT also provides the legal framework for customs valuation standards, "escape clause" (emergency) actions, antidumping and countervailing duties, dispute settlement, and other measures. The results of the Uruguay Round of multilateral tariff negotiations are set forth by way of separate schedules of concessions for each participating contracting party, with the U.S. schedule designated as Schedule XX.

Pursuant to the **Agreement on Textiles and Clothing** (ATC) of the GATT 1994, member countries are phasing out restrictions on imports under the prior "Arrangement Regarding International Trade in Textiles" (known as the **Multifiber Arrangement** (MFA)). Under the MFA, which was a departure from GATT 1947 provisions, importing and exporting countries negotiated bilateral agreements limiting textile and apparel shipments, and importing countries could take unilateral action in the absence or violation of an agreement. Quantitative limits had been established on imported textiles and apparel of cotton, other vegetable fibers, wool, man-made fibers or silk blends in an effort to prevent or limit market disruption in the importing countries. The ATC establishes notification and safeguard procedures, along with other rules concerning the customs treatment of textile and apparel shipments, and calls for the eventual complete integration of this sector into the GATT 1994 over a ten-year period, or by Jan. 1, 2005.

Rev. 8/12/97

APPENDIX B

**SELECTED PORTIONS OF THE
HARMONIZED TARIFF SCHEDULE OF THE UNITED STATES**

(Appendix not included in the electronic version of this report.)

APPENDIX C

OTHER ATTACHMENTS

(Appendix not included in the electronic version of this report.)

105TH CONGRESS
1ST SESSION

S. 1474

To suspend temporarily the duty on certain high tenacity single yarn of viscose rayon.

IN THE SENATE OF THE UNITED STATES

NOVEMBER 8, 1997

Mr. D'AMATO introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To suspend temporarily the duty on certain high tenacity single yarn of viscose rayon.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. TEMPORARY SUSPENSION OF DUTY.**

4 (a) IN GENERAL.—Subchapter II of chapter 99 of
5 the Harmonized Tariff Schedule of the United States is
6 amended by inserting in numerical sequence the following
7 new heading:

“	9902.54.03	High tenacity single yarn of viscose rayon (provided for in subheading 5403.10.30)	Free	No change	No change	On or before 12/31/99	”.
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1 (b) EFFECTIVE DATE.—The amendment made by
2 subsection (a) applies with respect to goods entered, or
3 withdrawn from warehouse for consumption, on or after
4 the 15th day after the date of enactment of this Act.

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